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Business Action on Climate Change

A Perspective from the Private Sector

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Two independent events in the 1990s set the stage for highlighting the role that businesses in India might play in addressing climate change. One was the World Conference on Environment and Development in Rio de Janeiro in 1992 that brought about a global focus on the environment and recognized that human action was a significant contributor to climate change. The second was a significant shift in Indian economic policy: the ushering in of liberalization, privatization, and globalization of the economy meant an increasing role for business in economic development.

While it must be said that a number of Indian businesses remained conscious about their responsibilities to communities, especially given India's poor state of human development, liberalization also meant competing with global players. The main concerns of business—profitability, growth, longevity, and shareholder returns—began to dominate Indian business thinking, with social and environmental responsibilities sometimes taking a back seat. Also, the

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regulatory framework emphasized pollution, deforestation, and wildlife conservation, and that relatively narrow focus dominated the environmental discourse.

The last decade or two seem to have brought in a greater degree of balance between the financial bottom line on the one hand, and the social and environmental bottom lines on the other, thereby bringing climate change to the forefront. Several factors have influenced this change, including global initiatives, stronger community and civil society responses, as well as internal drivers and thought processes. Mounting scientific evidence of the causes and impacts of climate change have placed this issue squarely on the agenda. This chapter explores these influences, examines the responses of companies, and identifies the challenges that companies in India face in integrating climate change more holistically into their business models.

Business and Climate Change: The Tide Is Turning Globally

Though far from a consensus, the number of global companies that not only recognize the reality of climate change but are also acting on it has increased dramatically, especially in the past 5–10 years. According to CDP (formerly Carbon Disclosure Project; www.cdp.net), the number of companies reporting on climate change grew from 245 at launch in 2002 to 6,251 in 2017. Moreover, according to CDP, in 2017, about 89 per cent of reporting companies had emission targets in place and by May 2018, 401 companies had committed to setting science-based targets, up from 114 in the year 2015!

Slowly but surely, the tide is turning. The significance of developments during 2015, which saw the adoption of the Sustainable Development Goals (SDGs) at the UN General Assembly as well as the Paris Agreement on climate change, was not lost on companies. These processes actively encouraged the participation of chief executive officers (CEOs) of corporations who, perhaps for the first time, were invited to sit at the table and not on the sidelines. We, too, were present in Paris and participated in several discussions where business leaders were invited to speak in meetings chaired by the UN secretary-general and other leaders. Global industry bodies such as the World Business Council for Sustainable Development (WBCSD) and the World Economic Forum (WEF), and through them their

member companies, were actively engaged in the discussions leading up to the SDGs and the Paris Agreement. These organizations also coordinated open letters from CEOs to political leaders ahead of the Paris Agreement (WEF 2015), urging them to build global covenants which businesses would support. Many also responded publicly and positively to the appeal by the We Mean Business Coalition (We Mean Business n.d.) to companies to publicly commit themselves to goals such as using 100 per cent renewable energy, adopting science-based emission targets, and putting a price on carbon.

The Paris Agreement provided the much-needed momentum for businesses to make their commitment to addressing climate change public, and this commitment has been sustained. The Michael Bloomberg-led Task Force on Climate-Related Financial Disclosures (TCFD), which also included an Indian representative from Tata Steel, has recommended a framework for climate reporting which several companies have endorsed. Several global CEOs, in July 2017, openly urged the G20 leaders to accept the TCFD recommendations (Farnworth 2017). In fact, several CEOs of US companies publicly urged President Trump not to pull out of the Paris Agreement and when he still went ahead and announced his intention to do so in June 2017, they not only openly criticized him but also pledged that their companies would continue to honour those commitments (Horowitz and Mullen 2017).

What Is Moving the Needle?

While some global businesses have always shown leadership by focusing on stakeholder value, it would be fair to say that the triggers are not all altruistic. So, where is this motivation coming from?

There are, indeed, several businesses that believe that climate change is anthropogenic and that businesses have to be part of the solution. At the same time, they recognize that markets do not always reward responsible behaviour, especially in the short term, and arguably the only way of ensuring a level playing field is through state action. This would partly explain why so many business leaders urged global political leaders to come to an agreement at Paris, and later also appealed to the G20 heads of state to endorse the TCFD recommendations.

Even if CEOs are convinced that conducting business responsibly, beyond complying with the law, is good for business, they look for the 'business case' to convince their stakeholders. Apart from regulations getting tighter, this 'business case' is increasingly being provided by stakeholder pressure. Some examples are:

1. Investors, whose actions, as one private investor said to us, are driven by fear and greed, see climate change as a risk to their investments as well as an opportunity for new businesses, for example, renewables. The action by global investors to force Exxon to agree to disclose its carbon emission (*Fortune* 2017) and Norges Bank exiting its fossil fuel holdings are just two examples of the former. When CDP asked 354 investors to approach around 1,300 high environment impact companies with their Investor Action request to take 3 specific sets of actions, 63 per cent of the companies had responded by 2017 (Stathers 2018).
2. Surveys increasingly show that customers and employees prefer brands and companies with a purpose. Recent data showed that Unilever brands that were aligned with their 'Sustainable Living Plan' grew faster than others (Unilever 2017).
3. Other stakeholders, like communities, non-governmental organization (NGOs), and media, are beginning to indicate their preference for companies that demonstrate responsible behaviour. However, it must be said that this driver is still emergent.

Business membership organizations—both global, like the WEF and WBCSD, and Indian, like the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI)—are increasingly working with their members to mainstream thinking on sustainable development, including climate change. They do this in a number of ways, including rewards and recognition, conferences, providing evidence from their members on the business benefits, and, increasingly, working with their members to develop solutions to address climate change concerns. While businesses compete in the marketplace, it appears that sustainable development can incentivize collaboration, as envisaged by SDG 17 on partnerships. For example, the authors learnt during discussions with colleagues at the Tata Group-owned Jaguar Land Rover that its

commitment to lightweighting and circularity led it to collaborate with the Aditya Birla Group's aluminium company Novelis, which recycles aluminium and supplies the former recycled aluminium.

Indian Companies Too Have Begun to Get Active, Some More than Others

Businesses in India too have begun to engage on sustainable development issues in general, and climate change in particular. Evidence of this is:

1. Eight Indian CEOs signed the WEF statement supporting political leaders to come to an agreement at Paris (WEF 2015).
2. Over 50 companies reported regularly on their carbon emissions to CDP in 2017 and 2018, though this is lower than the peak of 61 reached in 2015, the year of the Paris Agreement (CDP Climate Change Report 2015 and subsequent editions of this report).
3. Indian companies are already thinking about and experimenting with an internal carbon price. Seven have joined the World Bank-led Carbon Pricing Leadership Coalition (Carbon Pricing Leadership Coalition n.d.). Mahindra, Hindustan Construction Company, and Infosys have made public announcements about their internal carbon pricing, while some Tata companies are doing this as an internal exercise. Importantly, 40 companies in 2017 reported to CDP that they either had an internal price on carbon (14) or were intending to develop this within 2 years (26), up from 27 in 2015 (CDP and TERI 2017: 18).

Is there a typical pathway that Indian companies have taken to internalize and mainstream climate change into their core operations? Perhaps not, but it would be fair to say that there are some indicators to look out for.

The first sign that a company is getting serious about the larger sustainability agenda (and climate change is often an important part of this for manufacturing companies) is voluntary sustainability reporting, using global frameworks like the Global Reporting Initiative (GRI), CDP, and, in the odd case, Integrated Reporting.

Interestingly, many companies have begun their sustainability journey by, first, writing their sustainability reports, and then realizing that they need to become more strategic if successive reports are to demonstrate real progress. Based on the authors' analysis of the GRI's Sustainability Disclosure database (https://database.globalreporting.org/search/), the numbers are still small but are rising, from about 27 reports in 2010 to 85 reports in 2015.

A second sign is the creation of a sustainability team in a company, initially housed in the environment, health, and safety (EHS) or corporate social responsibility (CSR) teams, leading eventually to the appointment of a chief sustainability officer (CSO). Five years ago, a CSO would have been a rarity in Indian companies and while it is still not common, it certainly is gaining ground. However, it would be rare to see any company of significance not having someone reasonably senior in charge of CSR and environment (including climate change), either separately or as an integrated function. Interestingly, in the case of groups like the Tata, Mahindra, and Aditya Birla, such positions exist at both group and individual company levels.

A third stage in this journey is sustainability becoming strategic and getting mainstreamed in companies. This would include activities such as systematically engaging with stakeholders to understand their expectations, as well as analysing the environment and social issues, including climate change, that are likely to impact financial results over time. This process leads to the identification of key 'materiality' considerations, and often results in a more systemic and robust sustainability report. At a later stage, companies move to the next level, including their supply chains and distribution channels in their sustainability strategy, investing in clean technologies, and embracing ideas like circularity.

In many ways, the journey of the Tata Group, with whom we have worked and with which we are familiar, is illustrative. The group has, for the longest time, believed that communities are the very reason for a business's existence and, therefore, it created a Tata Council for Community Initiatives to collectively work on this. Most major companies in the group signed on to the UN Global Compact and began reporting against that. In 2009, the group articulated its climate change policy, which urged group companies to adopt a leadership role. This resulted in several group companies calculating their carbon and water footprints and investing in reducing them. In

2014, the group established the Tata Global Sustainability Council (TGSC), which adopted a comprehensive sustainability policy and a set of group key performance indicators to track performance. Many companies also began to report using the GRI framework.

In 2015, the group began to explore how internal carbon pricing can mainstream climate change mitigation thinking. A task force consisting of major carbon-emitting companies was set up, which decided that: (i) given its diversity, a uniform carbon price for the whole group will not be viable; and (ii) the mechanism used should be a shadow price that pushes capital investments down a low-carbon path. Tata Steel uses this for its capital expenditure proposals, while Tata Power, the other big emitter, obviated the need for this by committing to generate 30–40 per cent of its power production from renewables by 2025 (Shah 2016).

Varied Pace of Adoption

Expectedly, given the diversity of Indian industry, the engagement with climate change varies across businesses. Large companies and groups, especially those with a global footprint, have taken the lead, as they must. This has been driven by several factors, including stricter regulations and their implementation in overseas markets and more active and vocal stakeholders, like customers and investors.

There are also sectoral differences in the speed at which climate mitigation measures are mainstreamed. Even though the renewables pathway to decarbonization of the electricity sector is clear, electricity companies in India are still heavily invested in coal-based technologies; the good signs are that companies like Tata Power have made public commitments to shift significantly to renewables (Shah 2016). Sectors like aviation, heavy transport, steel, and cement—what the Energy Transitions Commission (n.d.) called the 'harder to decarbonise' sectors in its report—will have to depend upon technological advances (including carbon capture and storage/use in the case of the latter two) to reduce their carbon emissions and may end up emitting carbon for a longer time than other sectors.

While a few leading Indian companies are walking the talk, it would be fair to say that many others are still struggling with

embracing the agenda—in part because they do not fully understand the implications and partly because of their focus on the short term. The micro, small, and medium enterprise (MSME) sector in India, many of whose members are part of supply chains of larger companies, is the harder nut to crack. This segment is particularly significant as it accounts for about a third of India's gross domestic product (GDP) and industrial output (CII n.d.) and employs over 120 million people, second only to agriculture! In the absence of any signals from customers, regulators, or the banking system on the importance of sustainability in general, and climate change in particular, and because price continues to dominate the narrative in India, MSMEs see little incentive to look at the medium to long term and invest in technologies or processes that could positively impact climate change. Here is where large companies that have understood the implications of climate change can play a significant role in influencing their MSME value chain partners in becoming more proactive. However, it must be said that work on sustainable supply chains even amongst large companies is still in its infancy in India.

Challenges Remain

While a case can be made for businesses to reflect on their own role in society and not wait for the 'business case' to be made before embracing sustainability, only a few leadership companies will actually do this in practice. Therefore, there remains a strong need for external forces to also push the 'business case' and this is where several challenges remain for businesses in general, and Indian businesses in particular. Some of these are explored here.

Regulation remains the key because, as mentioned earlier, it can both encourage and provide a level playing field to businesses who wish to take the agenda forward. However, regulatory signals remain mixed. Some policy interventions, such as the coal cess and the emphasis on renewable energy, signal the government's seriousness on climate change, but at the same time, the coal ministry does talk about increasing coal production; little has been done to get more companies to, for instance, disclose their carbon emissions, or report on their low-carbon investments, or initiate discussions on carbon pricing as a means to address mitigation.

When it comes to taking public positions and leading the advocacy agenda in favour of climate change mitigation and adaptation, it must be said that Indian industry has not been very proactive, especially compared to its developed country counterparts. There have been occasions when businesses have pushed back on tighter regulations; Chattopadhyay (2015) reported that 'pressure from the automobile industry is delaying implementation of tighter vehicular emission norms in cities across India'. The Bharat Stage (BS) VI emission norms are to come into effect from 2020, bypassing BS V, and while companies say they are gearing up for this, issues around fuel availability and clearing of unsold stocks are being raised. There have been difficulties in building an industry-wide consensus, with some companies being focused on the short-term and being concerned about getting rid of the stock of vehicles that are non-compliant before the deadline. Predictability of regulations is also a challenge—the more advanced fuel standard, BS VI, was advanced to 2018 for Delhi in light of terrible air quality in many Indian cities; companies argue that there was insufficient time to prepare.

Few Indian investors, if any, are factoring sustainability into their decisions, and hence signals from the Indian investment community are nowhere near comparable to those that global investors see. There have been attempts from the National Stock Exchange and the Bombay Stock Exchange to build indices on sustainability and carbon, but there are few signs, for instance, of funds that use these indices to provide investment opportunities. Anecdotally, more Indian companies are keen to be on the Dow Jones Sustainability Index than comparable Indian stock market indices.

Markets in India still do not reward responsible behaviour. India remains a price-conscious market and customers—both industrial and retail—are not ready to pay a higher price in the short term associated with sustainable production. There are early signs that the other stakeholder that businesses take seriously, namely, employees, are preferring to join companies that exhibit responsible behaviour, but this is far from being a significant game changer.

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While leadership companies have begun to factor sustainability thinking (including climate change) into their business strategies and models, the process clearly needs to be deeper, wider, and faster. This requires, at the minimum, a level playing field where all businesses are driven to contribute; regulations can provide this but few businesses beyond the leadership ones can be expected to advocate for this. However, unless all the other stakeholders—customers (which include governments which are significant procurers of goods and services in India), investors, employees, communities, etc.—reward such behaviour, business as a sector will change slowly. There is sufficient evidence that businesses, both global and Indian, now understand the impacts of climate change, their role in causing it, and their ability to provide solutions. This is an opportune moment to demonstrate that doing business responsibly is the key to success.

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